

Message Text

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E.O. 11652: GDS
TAGS: CH, HK, UK
SUBJECT: THE FUTURE OF HONG KONG

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1. INTRODUCTION AND SUMMARY: HONG KONG ITSELF RATES RATHER LOW ON THE SCALE OF PRIORITIES FOR REPORTING FROM THIS POST EXCEPT FOR ECONOMIC AND TRADE MATTERS. HOWEVER, BECAUSE OF THE IMPORTANCE OF HONG KONG TO THE PRC AND THE IMPORTANCE OF THE UNITED STATES TO HONG KONG IT MIGHT BE WORTHWHILE IN A FINAL REPORT TO TAKE A LOOK AT THIS FASCINATING PLACE AND ITS FUTURE.

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2. HONG KONG MUST SURELY RANK AS ONE OF THE GREAT POLITICAL ANACHRONISMS OF THE ERA: A MILITARLY INFENSIBLE PLACE ADMINISTERED BY A FAR-REMOVED METROPOLIS WHICH HAS LONG SINCE DISMANTLED THE REST OF ITS EMPIRE AND WHICH AT HOME WAS ONLY PALLID INTEREST IN ITS LAST MAJOR COLONY; A FREE-SWINGING ECONOMY RIGHT UP AGAINST AND ESSENTIAL TO THE BIGGEST AND IN SOME WAYS THE MOST TIGHTLY

ORGANIZED AND CONTROLLED COMMUNIST STATE OF ALL. HONG KONG IS A LIVING TRIUMPH OF PRACTICE OVER IDEOLOGY AND PRINCIPLE.

3. THIS MESSAGE DISCUSSES THE CURRENT RELATIONSHIP BETWEEN HONG KONG AND THE PRC, THE STAKE OF THE LATTER IN THE STATUS QUO AND HAS SOME SUGGESTIONS FOR US POLICY. ALTHOUGH NOT COVERED DIRECTLY, THERE ARE IMPLICATIONS IN THE WAYS THE BRITISH AND CHINESE DEAL WITH EACH OTHER FOR THE CHINESE "ON BOTH SIDES OF THE STRAITS AS THEY ADJUST THE PROBLEM OF THE OTHER LARGER "PART OF CHINA" NOT UNDER PRC CONTROL. END SUMMARY.

4. CURRENT UK/HKG-PRC RELATIONSHIP. BRITISH OFFICIALS HAVE SAID THAT THE PRESENT RELATIONSHIP BETWEEN HONG KONG AND CHINA IS THE BEST IN THE COLONY'S HISTORY. PROBLEMS OF ALL KINDS ARE SOLVED FASTER AND THERE ARE LESS PROBLEMS TO BEGIN WITH; THE CHINESE HAVE BEEN QUICK TO REACT SYMPATHETICALLY TO THE RECURRENT CRISES OVER WATER AND FOOD IN THIS BARREN PLACE AND, IN RECENT YEARS, AVOIDED ALL FORMS OF PROVOCATION ALONG THE BORDERS. MOST OF THIS FORTHCOMING ATTITUDE IS DUE TO THE VALUE OF HONG KONG'S CONTRIBUTION TO THE PRC'S ECONOMY AND TO A NATURAL CONCERN FOR THE WELFARE OF THE 99 PER CENT OF THE POPULATION WHICH IS CHINESE. HOWEVER, SOME OF IT CERTAINLY MUST COME FROM THE SKILLFUL BRITISH HANDLING OF THEIR RELATIONS
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WITH THEIR CHINESE NEIGHBORS.

5. THE MOST IMPORTANT STEP WAS TAKEN AT THE UN AND PROVIDES A GOOD EXAMPLE OF HOW SMOOTHLY PRACTICABILITIES CAN FALL INTO PLACE AFTER A CHINESE PRINCIPLE HAS BEEN ACCEPTED. IN 1972, THE BRITISH SIMPLY KEPT SILENT AFTER CHINA CALLED ON THE UN TO REMOVE HONG KONG AND MACAU FROM THE LIST OF COLONIAL TERRITORIES TO BE REVIEWED REGULARLY BY THE UN. BY NOT CHALLENGING THE PRC ON THE ISSUE, THE BRITISH INDIRECTLY CONCEDED THE CHINESE POSITION THAT ALL OF HONG KONG IS CHINESE TERRITORY "TEMPORARILY ADMINISTERED/ BY BRITAIN. BY TACTITLY ACCEPTING THIS PRINCIPLE, THE BRITISH CLEARLY TRIED TO DEEMPHASIZE THE CONTROVERSIAL TREATIES AND RESULTING LEGALISTIC ARGUMENTS AND FOUND THE MEANS OF REACHING A SINO-UK WORKING UNDERSTANDING ON HOW TO KEEP HONG KONG RUNNING UNDER BRITISH CONTROL.

6. DIRECT CONTACTS LOCALLY BETWEEN THE HONG KONG GOVERNMENT AND NCNA REPRESENTATIVES HAVE EVOLVED SINCE THE DIFFICULTIES OF 1967 INTO RELATIVELY FRIENDLY AND RELAXED MEETINGS IN WHICH SUBTLE BUT CLEAR MESSAGES

ARE PASSED OBLIQUELY. COMPLEX ISSUES SUCH AS THE RETURN OF ILLEGAL IMMIGRANTS, FOR EXAMPLE, HAVE BEEN SUCCESSFULLY NEGOTIATED AT THE LOCAL LEVEL. IN THIS CASE, THE CHINESE PRINCIPLES THAT ALL CHINESE CITIZENS PERMITTED BY CHINESE AUTHORITIES MUST BE ALLOWED TO GO "FROM ONE PART OF CHINA TO ANOTHER" AND THOSE NOT PERMITTED MUST BE RETURNED, WERE ACCEPTED BY THE BRITISH WHO GOT AN INFORMAL BUT CAREFULLY ENFORCED LIMIT ON THE "LEGALS" AND A QUIET PROMISE THAT THE RETURNED "ILLEGALS" WOULD NOT BE HARSHLY PUNISHED. ON OCCASION, THE BRITISH WILL APPREHEND PRC AGENTS IN HONG KONG WHO ARE FELT TO BE SOMEWHAT OVERACTIVE. THE AGENTS ARE NEVER BROUGHT TO TRIAL; THE SITUATION IS HANDLED VERY QUIETLY WITHOUT ANY PROTESTS ON EITHER THE BRITISH OR THE PRC SIDE. EVENTUALLY,
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THE BRITISH QUIETLY NOTIFY THE CHINESE THAT ONE OF THEIR CITIZENS WILL BE DELIVERED TO LOWU ON A CERTAIN DATE AND THE PRC ACCEPTS THE DETAINEE WITHOUT ANY QUESTIONS.

7. IN ADDITION TO THE POLITICAL CHANNEL OF COMMUNICATIONS, INDIVIDUAL DEPARTMENTS OF THE HKG HAVE FREQUENT, OFTEN CLOSE, WORKING RELATIONSHIPS WITH PRC REPRESENTATIVES IN HONG KONG OR IN KWANGTUNG PROVINCE. THESE INCLUDE COORDINATION ON AVIATION, SHIPPING, RAILWAYS, HEALTH, FOOD AND WATER SUPPLIES AS WELL AS REGULATION OF BANKING, LABOR, EDUCATION AND POLLUTION. AS CHINA'S ECONOMIC ACTIVITIES IN HONG KONG EXPAND AND AS HIGHER LEVEL EXPATRIATES IN THE HKG ARE REPLACED BY ETHNIC CHINESE CIVIL SERVANTS, SUCH CONTACTS WILL BE STRENGTHENED.

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8. IT IS ASSUMED HERE THAT BRITAIN WOULD GIVE UP HONG KONG WITHOUT FIGHTING ANY TIME CHAIRMAN HUA PICKS UP THE PHONE AND ASKS FOR IT. AT THE SAME TIME, IT IS ACCEPTED WITH SOMEWHAT LESS LOGIC THAT THE UK WOULD BE WILLING TO STAY ON "TEMPORARILY ADMINISTERING" HONG KONG INDEFINITELY IF THE CHINESE CONTINUED TO AGREE. WHY THIS WOULD BE SO IS HARD TO UNDERSTAND SINCE THERE IS NO CHANCE OF HMG CARRYING OUT ITS HISTORIC FUNCTION OF INTRODUCING ITS COLONY TO SELF-GOVERNMENT, THE ONLY IDEOLOGICAL BASIS FOR A COLONY NOWADAYS. ECONOMICALLY, IT DOESN'T MAKE TOO MUCH SENSE EITHER BECAUSE AT THE BEST THERE IS ONLY A ROUGH BALANCE IN PAYMENTS BETWEEN BRITAIN AND HONG KONG AND A BRITISH DEFICIT IN VISIBLE TRADE. NOTHING OF THE SORT EMANATES FROM THE UP-BEAT BRITISH HERE

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BUT THE LOCAL PRESS HAS OCCASIONALLY PICKED UP COMMENTARY FROM THE UK SUGGESTING THAT IS WILL SHORTLY BE TIME FOR BRITAIN TO BEGIN WITHDRAWING GREACEFULLY. THIS WOULD, OF COURSE, BE A DISASTER FOR HONG KONG, A FACT WHICH IS RECOGNIZED BY THE PRC WHICH HAS QUIETLY, BY INDIRECTION, REASSURED THE BRITISH THAT THEY ARE WELCOME TO STAY FOR AWHILE AT LEAST.

9. PRC STAKE. THE CONVENTIONAL WISDOM ON HONG KONG'S FUTURE AFTER THE EXPRIATION OF THE LEASE ON THE NEW TERRITORIES IS THAT SINCE THE TREATIES GIVING HONG KONG TO GREAT BRITAIN WERE UNEQUAL TREATIES AND HAVE BEEN DENOUNCED BY BOTH THE NATIONALISTS AND THE COMMUNISTS, THE DATE 1997 HAS NO MORE INTRINSIC RELEVANCE THAN 1987 OR 2007. IT THEN GOES ON TO MAINTAIN THAT AS LONG AS HONG KONG IS PROFITABLE TO THE PRC IT WILL BE LEFT AS IT IS, MAYBE NOT AS A FORMAL BRITISH COLONY BUT AS SOME SORT OF FOREIGN EXCHANGE-EARNING ENTITY WITH AN AUTONOMY AND ADMINISTRATION OF ITS OWN.

10. HONG KONG IS OBVIOUSLY PROFITABLE. RECENT ESTIMATES ARE THAT CHINA EARNS NEARLY US\$2 1/2 BILLION FROM HONG KONG PER YEAR OR 40 PERCENT ITS GROSS FOREIGN EXCHANGE RECEIPTS. CHINA SUPPLIES HALF OF HONG KONG'S IMPORTS OF FOOD AND CLOTHING, 19 PERCENT OF RAW MATERIALS CONSUMED HERE AND 12 PERCENT OF PETROLEUM PRODUCTS. IT BUSY ALMOST NOTHING FROM HONG KONG AND OF COURSE WOULDN'T MAKE A DIME IN FOREIGN EXCHANGE SELLING THESE THINGS TO THEMSELVES.

1. THE PRC'S DIRECT AND INDIRECT INVESTMENTS IN HONG KONG ARE ALSO INCREASING STEADILY. THE BANK OF CHINA, THE BANK OF COMMUNICATIONS, AND NINE SISTER BANKS HAVE ESTABLISHED MORE THAN 120 BRANCHES THROUGHOUT THE COLONY.

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LOANS FROM THE BANKS HAVE PROVIDED CAPITAL, WHICH PRC TRADING CORPORATIONS HAVE INVESTED IN A WIDE VARIETY OF PROJECTS. THESE INCLUDE A \$20 MILLION PLANT TO ASSEMBLE MACHINE TOOLS FOR EXPORT TO THE UNITED STATES AND SOUTH-EAST ASIA, AND A \$10 MILLION 200-THOUSAND-TON CAPACITY OIL STORAGE DEPORT. PROJECTS WHICH HAVE ALREADY BEEN COMPLETED INCLUDE AN 11-STORY COLD STORAGE FACILITY, A 10-THOUSAND-TON OIL STORAGE DEPOT IN SHATIN, AND THE FIRST TWO OF A FUTURE CHAIN OF GASOLINE STATIONS. THE PRC HAS ALSO INVESTED IN REAL ESTATE, SMALL-SCALE INDUSTRY, AND A CHAIN OF MORE THAN 50 DEPARTMENT STORES THAT SUPPLY CHINESE-ORIGIN FOODSTUFFS AND CONSUMER GOODS TO HONG KONG CONSUMERS. THE STEADY ACCRETION OF PRC EQUITY IN HONG KONG INDICATES AS WELL AS ANYTHING THAT THE PRC IS NOT INTENDING TO CHANGE THE SITUATION IN THE FORESEEABLE FUTURE. THE ENTERPRISES LISTED ABOVE ARE BASICALLY RUN ON CAPITALIST LINES AND ALTHOUGH SUPPORTED BY LOANS FROM THE COMMUNIST-RUN BANKS ARE NOT CONTROLLED BY THEM IN OPERATION.

12. IN ADDITION TO THOSE ENTERPRISES MORE OR LESS OWNED BY THE PRC, THERE ARE LITERALLY HUNDREDS OF COMPANIES, LARGE AND SMALL, WHICH LIVE ON TRADE WITH THE PRC. MANY OF THESE ARE IN EFFECT JOINT ENTERPRISES SELLING A PRC PRODUCT UNDER A LONG-RANGE CONTRACT WITH A SPECIFIC PRODUCER (EVEN DOWN TO COMMUNE LEVEL) OR A STATE TRADING COMPANY.

13. THE MOST SIGNIFICANT FORM OF JOINT ENTERPRISE FOR THE FUTURE WOULD BE A TIE-UP BETWEEN MAJOR INTERNATIONAL COMPANIES AND THE PRC. SEVERAL VARIETIES OF THESE, ALL VERY LARGE, HAVE ALREADY BEEN DISCUSSED BY THE CHINESE AND FOREIGNERS. ONE WHICH RECEIVED CONSIDERABLE PUBLICITY INVOLVED DOW AND SHELL ON THE MULTINATIONAL SIDE IN

CONJUNCTION WITH THE PRC OIL IMPORT ORGANIZATION, SINOCHEN,
TO BUILD A PETROCHEMICAL COMPLEX ON ONE OF THE OUTLYING
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ISLANDS. THIS PROJECT FELL THROUGH WHEN THE PRC COULD NOT
GUARANTEE AN ADEQUATE FLOW OF FEEDSTOCK WHICH WAS TO
BE THEIR PART OF THE DEAL.

14. CONVENTIONAL WISDOM IS ALL VERY WELL, BUT THE END OF
THE LEASE FOR THE NEW TERRITORIES IN 1997 (91 PERCENT OF THE
COLONY'S TOTAL AREA) IS ALREADY CASTING A MUCH LONGER
SHADOW THAN A FEW YEARS AGO. THOUGH MOST INVESTMENTS
EVEN FOR LARGE PROJECTS ARE AMORTIZED IN UNDER TEN YEARS
THE PERIOD OF PROFITABILITY THREERAFTER ALREADY WOULD BE
SHORTENING IN THE MINDS OF INVESTORS IF THEY WERE BROUGHT
TO BELIEVE THAT TERMINATION OF THE LEASE WOULD BRING IT
ALL TO AN END. THEREFORE, SOME SORT OF CLEAR
PUBLIC SIGNAL FROM THE PRC TO THE CONTRARY WILL BE
NECESSARY BY THE MID-1980S AT THE VERY LATEST TO AVOID
AN ADVERSE RIPPLE EFFECT ON HONG KONG'S ECONOMY, SOCIETY
AND POLITICAL STABILITY.

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15. THE CHINESE WILL NOT DECLARE THEIR INTENTIONS IN SOME FORMAL WAY UNLESS THEY PROPOSE TO RETURN HONG KONG UNEQUIVOCALLY TO THEIR ADMINISTRATION. ANY LESS DRASTIC MOVE WOULD BE HARD FOR THEM TO ANNOUNCE IN TERMS WHICH WOULD NOT APPEAR TO WATER DOWN THEIR PRINCIPLE THAT HONG KONG IS PART OF CHINA AND MUST BE REINCORPORATED EVENTUALLY. THUS, THEIR SIGNAL WOULD COME IN THE FORM OF ACTIONS TAKEN WHICH BY THEIR NATURE WOULD ONLY MAKE SENSE IF HONG KONG REMAINED MORE OR LESS LIKE IT IS THROUGH THE TURN OF THE CENTURY.

16. TO ME THE MOST TELLING AND RELIABLE SIGNAL WOULD BE A LARGE SINO-AMERICAN JOINT ENTERPRISE OF THE KIND MENTIONED ABOVE WHICH DEPENDED UPON A STEADY SUPPLY OF CHINESE RAW MATERIALS OR FEEDSTOCK, BOTH A CHINESE AND AN INTERNATIONAL MARKET FOR THE PRODUCT AND WHICH WOULD NOT BE SECRET

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VIALE WITHOUT CONTINUOUS INPUTS OF US TECHNOLOGY AND CAPITAL. THE ADVANTAGES TO THE PRC OF SUCH A SCHEME WOULD BE THAT IT COULD OBTAIN A MAJOR PRODUCTION COMPLEX WITHOUT HAVING TO PAY ENTIRELY FOR ITS CONSTRUCTION AND WOULD HAVE THE USE OF THE PRODUCT FOR ITSELF AND A SHARE OF THE PROFITS OF THAT PORTION SOLD ABROAD. IDEOLOGICAL OBJECTIONS TO PARTICIPATING IN JOINT ENTERPRISES WOULD BE MUTED BECAUSE THE PLANT WOULD BE LOCATED IN HONG KONG AND THE PRC COULD OPERATE THROUGH ITS COMPLIANT FRONT MEN; FOREIGN TECHNICANS WOULD CONVENIENTLY BE ISOLATED FROM THE CHINESE PEOPLE. ON THE AMERICAN SIDE, THE RISK WOULD BE LIMITED TO THE AMORTIZATION PERIOD WHICH WOULD BE WELL BEFORE THE EXPIRATION OF THE LEASE AND THERE WOULD BE THE PROSPECT OF EARNING A GREAT DEAL OF MONEY IF THE CHINESE WHO WOULD THEN HAVE AN ADDITIONAL INCENTIVE TO DO SO WOULD ALLOW HONG KONG TO REMAIN AS IT IS.

17. US POLICY IMPLICATIONS. DESPITE BRITAIN'S CUSTODIAL ROLE AND ITS DOMINANT FINANCIAL POSITION, THE US AND THE PRC ARE THE TWO BASIC FACTS OF LIFE FOR HONG KONG.

18. THE US DOES NOT HAVE A STRATEGIC INTEREST IN HONG KONG NOR HAVE WE EVER BEEN INVOLVED IN THE POLITICAL AFFAIRS OF THE COLONY AND ITS RELATIONS WITH CHINA. THERE IS NO HINT OF US RESPONSIBILITY FOR THE FUTURE OF HONG KONG. OUR AID PROGRAMS OVER THE YEARS HAVE BEEN HUMANITARIAN REFUGEE RELIEF RATHER THAN DEVELOPMENTAL

AID AND IN RECENT TIMES HAVE BEEN UNDER-PLAYED.
NEVERTHELESS, THE US IS THE PREDOMINANT FOREIGN INFLUENCE
IN THE COLONY: WE ARE BOTH HONG KONG'S BIGGEST
CUSTOMER AND ITS LARGEST FOREIGN INVESTOR AND THERE ARE
OVER SIXTY US BANKS REPRESENTED HERE WHICH ARE TAKING
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A LARGER AND LARGER SHARE OF HONG KONG'S BURGEONING
FINANCIAL ACTIVITIES; VISTS OF SEVENTH FLEET SHIPS
ARE THE ONLY APPEARANCES OF REAL MILITARY POWER VISIBLE
TO THE PEOPLE OF THE COLONY SINCE THE BRITISH HAVE
DRASTICALLY RUN DOWN THEIR FORCES; CLOTHING STYLES OF
THE YOUNG, TV FEASTURES AND EVEN THE FOOD CONSUMED BY
LARGE SECTIONS OF THE POPULATION ARE INCREASINGLY
BECOMING AMERICANIZED; THERE ARE 12,000 HONG KONG
STUDENTS IN THE US, THE LARGEST SINGLE GROUP OUTSIDE
THOSE FROM OPEC COUNTRIES. THESE TIES BETWEEN
THE US AND HONG KONG CAN ONLY INCREASE, ESPECIALLY
AS MORE AND MORE HONG KONG RESIDENTS GAIN RELATIVES IN
AMERICA THROUGH IMMIGRATI9N. THUS, WHILE IT WILL BE
POSSIBLE FOR POLICYMAKERS TO SAY THAT THERE IS NO VITAL
OR EVEN IMPORTANT US INTEREST IN HONG KONG, THIS WILL
NOT BE THE ASSUMPTION OF A GROWING NUMBER OF US CITIZENS
WHO HAVE REASONS TO OPPOSE THE ABSORPTION OF HONG KNJ
INTO THE PRC.

19. BEREFT OF ALL NATURAL RESOURCES, HONG KONG DEPENDS
ENTIRELY ON THE ENERGY AND INITIATIVE OF THOSE WHO
COME TO LIVE AND WORK HERE. THUS, HONG KONG CAN ONLY
THRIVE IF ITS PEOPLE HAVE CONFIDENCEIN THE FUTURE. AS
FAR AS THE US IS CONCERNED, THE THREE CHIEF ELEMENTS
CONTRIBUTING TO MAINTAINING THAT SENSE OF CONFIDENCE ARE:

1) A CONTINUATION OF REASONABLY GOOD RELATIONS
BETWEEN THE US AND THE PRC. LOCAL CHINESE ARE NOT
IMPRESSED BY RHETORIC OR PROPAGANDA, EITHER AMERICAN
OR CHINESE, BUT BASE THEIR JUDGMENTS MUCH MORE ON
WHAT THE PRC CADRES AND AMERICANS HERE ACTUALLY SAY
AND DO. IN THIS CONNECTION, THE MOST CONFIDENCE-
INSTILLING DEVELOPMENT OF ALL WOULD BE THE FORMATION
OF A LARGE US-CHINESE JOINT ENTERPRISE IN HONG KONG.

2) US STEADINESS AND CONSTANCY IN THE WHOLE OF
EAST ASIA. ALTHOUGH HHONG KONG IS PART OF CHINA IN THE
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DOCTRINES OF BOTH THE PRC AND ROC, HONG KONG

CHINESE LOOK OUTWARD TO THE REST OF ASIA AND
EXPECT TO SHARE IN ITS DEVELOPMENT -- THE KNOWLEDGE THAT
THE US WILL CONTINUE TO BE INVOLVED IN THE AREA IN A
CONSISTENT WAY WITH LONG-RANGE PROGRAMS AND POLICIES
IS REASSURING.

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3) CONTINUED ACCESS TO US MARKETS WHICH IS ESSENTIAL
TO HONG KONG'S SURVIVAL. THE EXTENT TO WHICH HONG KONG
IS STILL PROSPERING BY THE MID-80S IN THE FACE OF
COMPETITION FROM OTHER ASIAN ECONOMIES AND IMPORT RESTRIC-
TIONS IMPOSED BY ITS MAJOR MARKETS WILL BE A FACTOR
INFLUENCING THE PRC'S ULTIMATE DECISION ON THE FATE
OF HONG KONG.

4) US SUPPORT FOR THE BRITISH. SINCE THE HK/PRC
RELATIONSHIP IS CONDUCTED IN SUCH SUBTLE, INDIRECT WAYS
OPEN SUPPORT FOR SPECIFIC BRITISH ACTIONS VIS-A-VIS THE
PRC IS NOT NECESSARY NOR DESIRABLE. HOWEVER, WE SHOULD
LOOK FOR WAYS WE CAN QUIETLY INDICATE TO THE WORLD AT
LARGE THAT WE APPROVE THE CONTINUATION OF BRITISH

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MANAGEMENT OF HONG KONG AND ITS STATUS AS A SEPARATE WORLD TRADING AND MANUFACTURING CENTER. AT SOME POINT IN THE NEXT FEW YEARS I THINK WE SHOULD TALK OFFICIALLY WITH HMG ABOUT THE FUTURE OF HONG KONG WITH THE OBJECTIVE OF FINDING WAYS TO HELP THEM ARRIVE AT UNDERSTANDINGS WITH THE PRC BY THE MID-80S WHICH WOULD PRESERVE HONG KONG'S SPECIAL CHARACTER INTO THE NEXT CENTURY.

20. I FEEL THAT BECAUSE OF ITS HIGH VISIBILITY, THE CONSULATE GENERAL REPRESENTS AN INCREASINGLY IMPORTANT PSYCHOLOGICAL FACTOR AS THE SITUATION EVOLVES AND CAN ALSO GIVE PRACTICAL SUPPORT TO THE POLICIES DISCUSSED ABOVE. FORTUNATELY, WE ARE IN AN EXCELLENT POSITION TO DO SO AND TO INFLUENCE PRC THINKING IN THE NEXT FEW KEY YEARS WHILE IT PUTS TOGETHER ITS OWN LONG-RANGE SOLUTION FOR HONG KONG. SINCE THE FALL OF CHINA TO THE COMMUNISTS IN 1949, THE COLONY HAS HAD SOME UPS AND DOWNS AND MOMENTS OF HIGH TENSION BUT THE HONG KONG GOVERNMENT HAS BEEN STABLE AND ITS OPERATING METHODS BASED ON PLEASANT, OLD-FASHIONED CONCEPTS OF ANGLO-AMERICAN COOPERATION HAVE ALWAYS BEEN COMPATIBLE WITH OUR OVERALL OBJECTIVES HERE. THEREFORE, WE ARE UNDER NO LOCAL GOVERNMENTAL PRESSURE TO BE ANYTHING LESS THAN WHAT WE ARE -- THE BIGGEST, MOST ACTIVE AND MOST INFLUENTIAL OF THE 60-ODD FOREIGN MISSIONS IN HONG KONG. THE PRC, WHICH HAS ON OCCASION IN THE PAST BEEN OPENLY ANTAGONISTIC TO THIS "SQN CENTER" AND STILL PROBABLY DOESN'T LIKE TO BE "WATCHED" BY US IS QUITE RELAXED AND WE NOW DEAL IN A BUSINESSLIKE WAY WITH THEIR REPRESENTATIVES AT ALL LEVELS.

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21. IN THE PAST THREE YEARS, CONGEN CONTACTS WITH PRC CADRES IN HONG KONG HAVE INCREASED SUBSTANTIALLY IN FREQUENCY, RANGE AND QUALITY. THOUGH NOT A SUBSTITUTE FOR THE AUTHORITATIVE CHANNELS WE HAVE OPEN TO THE PRC IN BOTH WASHINGTON AND PEKING, THESE CONTACTS SERVE IMPORTANT FUNCTIONS. THEY ARE AN EXCELLENT BAROMETER OF PRC ATTITUDES TOWARD THE US. ENCOURAGED BY THE FREER HONG KONG ENVIRONMENT AND BY POLITICAL CHANGES IN PEKING, PRC CADRES HERE ARE RELATIVELY MORE INFORMAL AND

FORTHCOMING IN THEIR DEALINGS WITH US THAN THEIR MAINLAND COLLEAGUES WITH USLO. THIS ADDS A HUMAN DIMENSION TO CHINA WATCHING AND PROVIDES INSIGHTS AND REVEALS ATTITUDES ON PRC POLICIES AND DEVELOPMENTS WHICH HITHERTO LARGELY DEPENDED ON SURMISE.

2. IN RECENT MONTHS I HAVE BEEN STRUCK WITH THE CARE AND SKILL WITH WHICH THE TOP CADRES HERE GO ABOUT THEIR EXCHANGES WITH US ON POLICY MATTERS, AND WE HAVE EVIDENCE THAT THESE ARE REPORTED TO PEKING. IN THE CONTEXT OF THIS MESSAGE, I SUGGEST THAT IT MIGHT BE POSSIBLE TO EXPAND THESE EXCHANGES TO INCLUDE A CAUTIOUS, LONG DRAWN-OUT, INFORMAL DIALOGUE ON THE FUTURE OF HONG KONG, A SUBJECT TOTALLY AVOIDED BY BOTH OF US SO FAR. IT IS NOT IMPOSSIBLE THAT THE CHINESE WOULD BE VERY INTERESTED IN AMERICAN ARGUMENTS POINTING OUT HOW A LONG CONTINUATION OF SOMETHING LIKE THE STATUS QUO IN HONG KONG WOULD BE IN OUR MUTUAL INTEREST.
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